

STATE OF SOUTH CAROLINA

South Carolina Electric & Gas Company – Request for
Approval of Demand Side Management Plan Including a
Demand Side Management Rate Rider and Portfolio of
Energy Efficiency Programs

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET

NUMBER: 2009 - 261 - E

(Please type or print)

Submitted by: K. Chad BurgessSC Bar Number: 69456Address: SCANA Corp.Telephone: 803-217-8141220 Operation Way MC C222Fax: 803-217-7931Cayce, SC 29033-3701

Other: _____

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DOCKETING INFORMATION (Check all that apply)

- ☐ Emergency Relief demanded in petition ☐ Request for item to be placed on Commission's Agenda expeditiously
- ☐ Other: _____

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)			
<input checked="" type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input type="checkbox"/> Letter	<input type="checkbox"/> Request	
<input type="checkbox"/> Electric/Gas	<input checked="" type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification	
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation	
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement	
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment	
<input type="checkbox"/> Electric/Water/Sewer	<input type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter	
<input type="checkbox"/> Gas	<input type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response	
<input type="checkbox"/> Railroad	<input type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery	
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition	
<input type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation	
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena	
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff	
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other:	
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest		
<input type="checkbox"/> Other:	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit		
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report		



K. Chad Burgess
Assistant General Counsel

chad.burgess@scana.com

March 31, 2010

VIA ELECTRONIC FILING

The Honorable Jocelyn G. Boyd
Interim Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Drive (29210)
Post Office Drawer 11649
Columbia, South Carolina 29211

RE: Application of South Carolina Electric & Gas Company for the Establishment and
Approval of DSM Programs and Rate Rider
Docket No. 2009-261-E

Dear Ms. Boyd:

On behalf of South Carolina Electric & Gas Company ("SCE&G"), the South Carolina Energy Users Committee, CMC Steel-South Carolina, and the South Carolina Office of Regulatory Staff (collectively the "Parties"), SCE&G respectfully submits to the Public Service Commission of South Carolina ("Commission") the enclosed Settlement Agreement in the above-referenced docket. The Parties are mindful of the Commission's Settlement Policies and Procedures. Please know that the Parties have worked diligently to settle this matter and are filing the Settlement Agreement immediately following the time it was finalized and executed. On behalf of the Parties, SCE&G reports that the Settlement Agreement resolves all issues among the Parties in this proceeding.

(Continued . . .)

The Honorable Jocelyn G. Boyd

March 31, 2010

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If you have any questions, please advise.

Very truly yours,



K. Chad Burgess

KCB/kms

Enclosures

cc: Shannon Bowyer Hudson, Esquire

Robert Guild, Esquire

Damon E. Xenopoulos, Esquire

E. Wade Mullins, III, Esquire

Joey F. Floyd, Esquire

Scott Elliott, Esquire

Frank Knapp, Jr.

Gudrun Elise Thompson, Esquire

J. Blanding Holman, IV, Esquire

Jill Mara Tauber, Esquire

(all via electronic mail and First Class U.S. mail w/enclosures)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-261-E

MARCH 31, 2010

IN RE:)	
South Carolina Electric & Gas Company)	
Request for Approval of Demand Side)	SETTLEMENT AGREEMENT
Management Plan Including a Demand Side)	
Management Rate Rider and Portfolio of)	
Energy Efficiency Programs)	
)	

This Settlement Agreement is made by and among South Carolina Energy Users Committee ("SCEUC"); CMC Steel South Carolina ("CMC Steel"), the South Carolina Office of Regulatory Staff ("ORS"), and South Carolina Electric & Gas Company ("SCE&G") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the Public Service Commission of South Carolina ("Commission") opened this docket to consider the application of SCE&G ("Application") on June 30, 2009 to: (i) consider the results of SCE&G's analysis of potential demand reduction and energy efficiency ("Demand Side Management" or "DSM") offerings, (ii) to review SCE&G's proposed suite of DSM programs, and (iii) to review an annual rider to allow recovery of SCE&G's costs and lost net margin revenue associated with its DSM programs along with appropriate incentives for investing in such programs;

WHEREAS, S.C. Code Ann. § 58-37-20 states:

The South Carolina Public Service Commission may adopt procedures that encourage electrical utilities and public utilities providing gas services subject to the jurisdiction of the commission to invest in cost-effective energy efficient technologies and energy conservation programs. If adopted, these procedures must: provide incentives and cost recovery for energy suppliers and distributors who invest in energy supply and end-use technologies that are cost-effective,

environmentally acceptable, and reduce energy consumption or demand; allow energy suppliers and distributors to recover costs and obtain a reasonable rate of return on their investment in qualified demand-side management programs sufficient to make these programs at least as financially attractive as construction of new generating facilities; require the Public Service Commission to establish rates and charges that ensure that the net income of an electrical or gas utility regulated by the commission after implementation of specific cost-effective energy conservation measures is at least as high as the net income would have been if the energy conservation measures had not been implemented.

WHEREAS, the Commission allowed for public comment and intervention in the above-captioned docket;

WHEREAS, SCEUC, CMC Steel, South Carolina Coastal Conservation League ("SCCCL"), Southern Environmental Law Center ("SELC"), Friends of the Earth ("FOE"), and Mr. Frank Knapp, Jr. (collectively "Intervenors") made timely requests to intervene;

WHEREAS, the South Carolina Office of Regulatory Staff ("ORS") is also a party of record in this proceeding pursuant to its statutory authority;

WHEREAS, SCE&G, ORS, SCEUC, CMC Steel, SELC, and SCCCL pre-filed testimony in this docket;

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket. The remaining parties of record in the above-captioned proceeding are not parties to this agreement;

WHEREAS, the Parties have engaged in discussions to determine if a Settlement Agreement would be in their best interest;

WHEREAS, following these discussions the Parties have each determined that their interest and the public interest would be best served by agreeing to certain matters in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the direct and rebuttal testimony and exhibits of the following six (6) witnesses without objection, change,

amendment or cross-examination with the exception of changes comparable to those which would be presented via an errata sheet or through a witness noting a correction.

SCE&G witnesses:

- a. Felicia Howard
- b. Kenneth Jackson
- c. Scott Wilson
- d. David Pickles

ORS witnesses:

- e. Randy Gunn
- f. Christina Seale

The Parties agree that Christina Seale and Scott Wilson need not testify in person at the hearing unless requested by the Commission.

2. The Parties agree to stipulate into the record before the Commission the revised direct testimony and exhibits of SCEUC witness Kevin O'Donnell as attached hereto as Exhibit A, without objection, change, amendment or cross-examination with the exception of changes comparable to those which would be presented via an errata sheet or through a witness noting a correction. The prefiled testimony of CMC Steel witness Dennis Goins, Ph.D. will not be offered into evidence in this proceeding.

3. The Parties agree that SCE&G and ORS are permitted to reach and file settlements with other parties in this proceeding. SCE&G is permitted to provide testimony of Kenneth Jackson and David Pickles in support of the terms of this Settlement Agreement.

4. Except as set forth herein, the Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits identified above and the supporting testimony of witnesses Jackson and Pickles. SCE&G reserves the right to engage in cross-examination of witnesses to support the reasonableness of the provisions of this Settlement Agreement, and all Parties reserve the right to redirect examination of witnesses as

necessary to respond to issues raised by the examination of their witnesses, if any, by non-Parties, or to any late-filed testimony. SCE&G and ORS also reserve the right to present testimony in support of any settlement agreement(s) reached with any other parties in this proceeding, as long as such testimony is not inconsistent with the provisions of this Settlement Agreement.

OPT-OUT PROVISIONS FOR INDUSTRIAL CUSTOMERS

5. The Parties agree that all industrial customer accounts may opt-out of the DSM and Energy Efficiency/Demand Response programs and costs at issue in this docket by notifying SCE&G in writing that the customer has implemented or will implement alternative DSM and Energy Efficiency/Demand Response programs at its own expense and does not wish to participate in SCE&G's program. Such notification shall be fully sufficient on its face to effectuate the opt-out. An industrial customer's opt-out for any of its accounts with SCE&G for electric service shall be made on a form provided by SCE&G and shall be effective on and after the date that such form is received by SCE&G. Only industrial customers are permitted to opt-out of the DSM and Energy Efficiency/Demand Response programs and costs at issue in this docket.

6. The Parties agree that all aspects of SCE&G's Application, not otherwise addressed in this Settlement Agreement, may be approved as filed or as modified by SCE&G in settlement agreements with other parties to the extent that they are not inconsistent with the agreement contained herein permitting industrial customers to opt-out of DSM programs and costs.

7. The Parties agree this Settlement Agreement is reasonable, in the public interest and in accordance with law and regulatory policy.

8. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable resolution of this contained herein. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

9. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. The Parties agree that this Settlement Agreement will not constrain, inhibit or impair their arguments or positions held in future proceedings, nor will the Settlement Agreement or any of the matters agreed to in it be used as evidence or precedent in any future proceeding. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

10. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing his or her signature or authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[Signature pages to follow]

WE AGREE:

Representing and binding South Carolina Energy Users Committee

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Elliott & Elliott, P.A.
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Columbia, SC 29205
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Email: selliot@elliottlaw.us

WE AGREE:

Representing and binding South Carolina Electric & Gas Company



Catherine D. Taylor, Esquire

K. Chad Burgess, Esquire

South Carolina Electric & Gas Company

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Phone: (803) 217-9356

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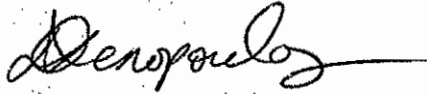
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WE AGREE:

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WE AGREE:

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Before the
South Carolina Public Service Commission

In Re: South Carolina Electric & Gas)	
Company's Request for Approval of Demand)	
Side Management Plan Including a Demand)	Docket No. 2009-261-E
Side Management Rate Rider and Portfolio)	
Of Energy Efficiency)	

Prepared Direct Testimony

of

Kevin W. O'Donnell, CFA

On Behalf of the

South Carolina Energy Users Committee (SCEUC)

January 7, 2010

**BEFORE THE SOUTH CAROLINA PUBLIC SERVICE
COMMISSION
DOCKET NO. 2009-261-E**

DIRECT TESTIMONY OF KEVIN W. O'DONNELL, CFA

1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS**
2 **FOR THE RECORD.**

3 **A. My name is Kevin W. O'Donnell. I am President of Nova Energy Consultants,**
4 **Inc. My business address is 1350 Maynard Rd., Suite 101, Cary, North Carolina**
5 **27511.**

6
7 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
8 **PROCEEDING?**

9 **A. I am testifying on behalf of the South Carolina Energy Users Committee**
10 **(SCEUC), which is a trade association comprised of several large industrial**
11 **consumers, many of which take electric supply service from South Carolina**
12 **Electric & Gas.**

13
14 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
15 **RELEVANT EMPLOYMENT EXPERIENCE.**

16 **A. I have a Bachelor of Science in Civil Engineering from North Carolina State**
17 **University and a Master of Business Administration from the Florida State**
18 **University. I have worked in utility regulation since September 1984, when I**
19 **joined the Public Staff of the North Carolina Utilities Commission (NCUC). I left**
20 **the NCUC Public Staff in 1991 and have worked continuously in utility**
21 **consulting since that time, first with Booth & Associates, Inc. (until 1994), then as**
22 **Director of Retail Rates for the North Carolina Electric Membership Corporation**

1 (1994-1995), and since then in my own consulting firm. I have been accepted as
2 an expert witness on rate of return, cost of capital, capital structure, and other
3 regulatory issues in general rate cases, fuel cost proceedings, and other
4 proceedings before the North Carolina Utilities Commission, the South Carolina
5 Public Service Commission (SC PSC), and the Florida Public Service
6 Commission (FL PSC). In 1996, I testified before the U.S. House of
7 Representatives, Committee on Commerce, and Subcommittee on Energy and
8 Power, concerning competition within the electric utility industry. Additional
9 details regarding my education and work experience are set forth in Appendix A
10 to my direct testimony.
11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. The purpose of my testimony in this case is to review the application of SCE&G
15 to impose a rate rider to fund energy efficiency (EE) and demand side
16 management (DSM) programs the Company now wishes to offer customers in its
17 service territory.
18

19 **Q. HOW IS YOUR TESTIMONY STRUCTURED?**

20 A. My testimony is structured as follows:

- 21 I. Review of Company Requested Opt-Out Provision for Industrial
22 Consumers;
- 23 II. Impact of Proposed Rate Rider on SCE&G Industrial Sales;
- 24 III. Summary of Recommendations
25
26

I. REVIEW OF OPT-OUT PROVISION

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF HOW THE OPT-OUT PROVISION WILL OPERATE IF THE COMPANY'S APPLICATION IS APPROVED.

A. The requirements that would allow a commercial or industrial customer to opt-out of the rate riders as proposed in this proceeding are quite daunting and cumbersome. First of all, the load size of the customer at a single location must be at least 3500 kW. If a customer has two non-contiguous sites, the load size threshold rises to 6000 kW. This large size requirement will force all but a few industrial customers to participate in SCE&G EE/DSM program and pay the rider as requested by the utility in this proceeding.

If a customer is large enough to meet the above minimum threshold requirements, it must certify in writing that it has performed an energy audit within the past three years and is taking actions that will produce energy and demand savings equivalent to what SCE&G believes will occur under the Company's EE/DSM program. It is inherent in the understanding of the proposed action in this filing that SCE&G would be the sole judge as to whether or not the industrial customer seeking the opt-out is implementing programs that would produce savings equivalent to the estimated SCE&G's EE/DSM energy savings.

The reductions cited by the industrial seeking to opt-out of the EE/DSM programs cannot include any reduction in usage due to on-site generation, co-generation, plant shut downs, a reduction in the normal usage of facilities, shifting production to another site, or "any other" reduction not associated with the result of the energy efficiency projects.

1 In my opinion, the Company's proposed restrictive opt-out provisions are grossly
2 inequitable to commercial/industrial consumers and should be denied by the
3 Commission. My recommendation is that all industrial consumers, the definition
4 of which is classified as a "manufacturing industry" by the Standard Industrial
5 Classification Manual, be allowed to opt-out of SCE&G's EE/DSM program by
6 sending a letter to the utility stating that it has implemented or plans to
7 implement, alternative EE/DSM measures.

8
9 **Q. WHY DOES THE COMPANY SEEK SUCH RESTRICTIVE OPT-OUT**
10 **PROVISIONS FOR COMMERCIAL AND INDUSTRIAL CUSTOMERS**
11 **AS PART OF THIS APPLICATION?**

12 A. According to Company Witness Jackson, SCE&G believes that these opt-out
13 provisions are necessary so that "the DSM costs that they (commercial and
14 industrial consumers) avoid are shifted to the customers that remain subject to the
15 rider." In my opinion, this statement belies the real reason for the restrictive opt-
16 out provisions that are a part of this application.

17
18 **Q. IN YOUR OPINION, WHAT IS THE REAL REASON THAT THE**
19 **COMPANY IS SEEKING THESE RESTRICTIVE OPT-OUT**
20 **PROVISIONS?**

21 A. The Company wants few customers to opt-out of its EE/DSM programs so that it
22 can maximize its own profits associated with this initiative.

23
24 SCE&G has requested a 3% adder to be placed on top of its current allowed
25 return on equity of 11%. As such, the utility is herein seeking Commission
26 approval for programs in which it will earn substantially more money on its
27 investments than it can earn from normal utility operations. Hence, the utility has
28 an incentive to force as many customers as possible to pay for the rate rider from
29 which it can generate profits as much as a 14% return on equity. As I have

1 discussed previously, SCE&G's application will not reduce energy consumption,
2 but it will produce significant profits for the utility.
3

4 **Q. HOW ENERGY CONSCIOUS ARE INDUSTRIAL CONSUMERS?**

5 A Manufacturers today have been operating in international competitive markets for
6 many years. As a result of this intense competition, manufacturers have been
7 forced to become very aware of their energy consumption, as well as every other
8 operating cost. There are very little, if any, stones unturned in today's
9 manufacturing environment. Cost containment is an ongoing and constant
10 process required for sheer survival. Unlike utilities that have captive markets,
11 manufacturers that do not contain their costs will soon find their market share
12 evaporate and/or their factory jobs shipped overseas where labor is cheap and
13 abundant.
14
15

16 **Q. DO YOU BELIEVE THAT INDUSTRIAL CONSUMERS NEED ANY**
17 **ADDITIONAL ENCOURAGEMENT OR INCENTIVE TO ENGAGE IN**
18 **EE/DSM ACTIVITIES IN ORDER TO BE ALLOWED TO OPT-OUT OF**
19 **THE COMPANY'S PROPOSALS IN THIS CASE?**

20 A. The Company's misconception in this case is that it apparently believes that
21 manufacturers in South Carolina are not constantly examining ways to cut costs
22 and preserve jobs in the state. Such a presumption is simply wrong.
23

24 Intense competition has forced manufacturers to actively seek every possible way
25 to cut costs and stay in business. It is very likely that manufacturers have already
26 implemented energy efficiency measures that have created ongoing energy
27 efficiency savings that may easily eclipse anything that SCE&G is proposing in
28 the current application. If manufacturers are now forced to participate in
29 SCE&G's EE/DSM programs after they have already completed past energy

1 efficiency projects, they will essentially be "double-dipped" on energy efficiency
2 costs.

3
4 **Q. PLEASE EXPLAIN HOW MANUFACTURERS WILL BE "DOUBLE**
5 **DIPPED" BY SCE&G'S PROPOSALS IN THIS CASE.**

6 **A.** An industrial consumer that is still operating today has already reviewed its
7 operating costs in-detail and implemented economically viable energy efficiency
8 projects. Hence, these customers have already incurred substantial costs to be as
9 energy efficient as is economically justified.

10

11 If SCE&G is successful in its request in this proceeding, the manufacturers that
12 invested in past energy efficiency projects will be required to pay for energy
13 efficiency projects for other customers, some of them against whom they may
14 actually be competing. In essence, industrials that have already completed energy
15 efficiency projects have reduced SCE&G's load in the past and, as a result,
16 subsidized customers in the past and will, once again, subsidize other SCE&G
17 customers that, heretofore, have not completed any energy efficiency projects.

18

19 **Q. WHAT OTHER DETAILS WITHIN THE COMPANY'S OPT-OUT**
20 **PROVISION DO YOU FIND OBJECTIONABLE?**

21 **A.** SCE&G's attempt to isolate energy efficiency savings by eliminating plant
22 closings, cogeneration activities, and slowdowns is certainly understandable.
23 However, this attempt to isolate energy efficiency may inadvertently negate some
24 industrial activities that may, by their nature, maximize energy efficiency for the
25 entire plant. An example would be a plant expansion that produces waste heat as a
26 byproduct that, in turn, can be used in the production of electricity that would
27 decrease the consumption of the manufacturer. Given the details as outlined by
28 the Company in its application, the above scenario would be deemed to be in

1 violation of the strict guidelines of the opt-out provision as requested by the
2 Company it is application.

3
4 As proposed in its application, the SCE&G proposal may result in less energy
5 efficiency than is sought by the Company due to the lack of foresight by the
6 Company in the derivation of the proposed tariff.

7
8 The language of SCE&G's opt-out provision creates a tremendous conflict of
9 interest for the utility and is bound to create a highly contentious atmosphere
10 between itself and its customers. If this program is approved by the Commission,
11 the PSC may soon get flooded with complaints from manufacturers that are at
12 odds with the Company on the opt-out issue.

13
14 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THE COMPANY'S OPT-OUT**
15 **PROPOSALS CREATE A CONFLICT OF INTEREST FOR THE**
16 **COMPANY IN ITS RELATIONS WITH ITS CUSTOMERS.**

17 **A.** SCE&G is proposing in this case that manufacturers submit certified letters to the
18 utility showing that its ongoing energy efficiency activities produce results equal
19 to the estimated SCE&G energy efficiency programs. However, SCE&G is
20 seeking to earn a profit incentive on its own EE/DSM programs. By being the sole
21 judge of the energy efficiency activities of its customers, the Company has an
22 incentive to deny opt-out requests of manufacturing customers so that it can
23 maximize its own profits via its EE/DSM tariff. This proposal of the Company to
24 be the sole judge on the issue of the opt-out creates a tremendous conflict of
25 interest that, in my opinion, should not be allowed by the Commission.

26
27 **Q. WHAT CHANGES DO YOU PROPOSE WITHIN THE OPT-OUT**
28 **PROVISIONS SOUGHT BY SCE&G IN THIS PROCEEDING?**

1 A. The timing of SCE&G's proposals in this case simply could not have been worse.
2 The Commission is well aware of the fact that the entire country is in the midst of
3 a terrible economic recession. This proposed rate rider by SCE&G is a new
4 expense to manufacturers at a time when South Carolina manufacturers are
5 struggling to keep their doors open and South Carolinians employed.

6
7 In addition, the Company's application in the current proceeding is the first of
8 four rate proceedings involving SCE&G in 2010. In addition to this EE/DSM
9 application, the Company is expected to file a fuel case, a rate case, and a revised
10 rate proceeding under the Base Load Review Act (BLRA) in 2010. SCE&G
11 ratepayers are simply overloaded with the many rate requests of SCE&G in 2010
12 and should not be asked to pay increased rates for ineffective EE/DSM programs.

13
14 My recommendation to this Commission is that manufacturers, as I have defined
15 previously, be allowed to opt-out of the SCE&G's EE/DSM programs and
16 associated rate riders by sending the Company a simple letter stating that it wishes
17 to opt-out of the DSM programs. Manufacturers should not be burdened with the
18 extra task of proving to the utility that its energy efficiency measures produce
19 results satisfactory to SCE&G which, as previously discussed, has an economic
20 incentive to deny the manufacturers request to opt-out.

21
22 Q. **HAVE ANY OTHER SOUTH CAROLINA UTILITIES AGREED TO**
23 **ALLOW ITS CUSTOMERS TO OPT-OUT OF UTILITY SPONSORED**
24 **ENERGY EFFICIENCY/DEMAND SIDE MANAGEMENT PROGRAMS?**

25 A. Yes. Progress Energy (PEC) has also implemented an energy efficiency program
26 that gives manufacturers the right to opt-out. With PEC, all the manufacturer must
27 do to be in compliance is send the utility a letter stating its desire to opt-out of the
28 energy efficiency/demand side management programs. Below is a question and

1 answer statement from the Progress Energy website that discusses PEC's position
2 on the opt-out issue:
3

4 **My company has already made, or is planning to make, a**
5 **number of energy efficiency improvements at our facility. Do**
6 **we have to share in paying for the new DSM/EE programs**
7 **being offered by PEC?**
8

9 South Carolina
10

11 Your facility may be eligible to avoid these charges. Progress
12 Energy has proposed that industrial accounts, of any size, and large
13 commercial accounts, which use more than 1 million kWh's in the
14 prior calendar year, may elect to opt out of participating in the
15 DSM/EE programs and avoid paying the charges if, at their own
16 expense, they have implemented in the past or plan to implement
17 in the future, alternative DSM/EE measures in accordance with
18 stated, quantifiable goals. For purposes of applying this option, a
19 customer is defined to be a metered account billed under a single
20 application of a Company rate tariff. For commercial accounts,
21 once one account meets the opt-out eligibility requirement, all
22 other accounts billed to the same entity with lesser annual usage
23 located on the same or contiguous property are also eligible to opt-
24 out.
25

26 Progress Energy's website goes further and provides direct instructions to
27 manufacturers about exactly how to opt-out of the energy efficiency/demand side
28 management programs. Below are two questions and answers from the PEC
29 website that provide customers with details on how to opt-out.
30

31 **What do I have to do to opt out?**
32

33 Customers must notify their electric utility in writing of their
34 request to opt out of participating in the DSM/EE programs and
35 provide a list of the specific eligible customer account numbers.
36 The written request must state that the account(s), at their own
37 expense, have either implemented in the past or plan to implement
38 in the future, alternative DSM/EE measures in accordance with
39 stated, quantifiable goals.

1
2
3 **Can I opt out now and then decide later to participate in one of**
4 **PEC's DSM/EE programs?**
5

6 Yes. A customer who initially opts out may subsequently elect to
7 participate in one or more specific new DSM/EE programs being
8 offered by PEC. However, any customer who elects to participate
9 in a new DSM/EE program loses the right to be exempt from
10 payment of the DSM/EE charges for ten years.
11

12 **Where do I send my request to opt out?**
13

14 An opt out letter template is provided for your convenience on this
15 web site. You may download this template or print and complete
16 the template form. The completed letter should be signed by a
17 person in your company who has the authority to execute contracts
18 and then mailed to the following address:
19

20
21 Progress Energy Carolinas, Inc.
22 CSC - CIGS Team
23 PO Box 1771
24 Raleigh, NC 27602
25

26 Source: [http://progress-](http://progress-energy.com/custservice/carcig/dsmoptout/dsm_optoutfaq.asp#b3)
27 [energy.com/custservice/carcig/dsmoptout/dsm_optoutfaq.asp#b3](http://progress-energy.com/custservice/carcig/dsmoptout/dsm_optoutfaq.asp#b3)
28

29 **Q. CAN YOU PROVIDE A COPY OF THE SAMPLE LETTER NOTED ON**
30 **THE PROGRESS ENERGY WEBSITE FOR MANUFACTURER THAT**
31 **WISH TO OPT-OUT OF COMPANY SPONSORED EE/DSM**
32 **PROGRAMS?**

33 **A.** Yes. Attached in Appendix B is the sample opt-out letter found on PEC's website
34 for use by its customers to notify the utility of the manufacturers wish to opt-out
35 of the PEC EE/DSM programs. As can be seen in this sample opt-out letter, the
36 manufacturer needs only to notify the utility that it has implemented or will
37 implement energy efficiency or demand side management measures and then
38 request the opt-out..

1
2 **Q. WHAT IS DUKE ENERGY'S POSITION ON THE MATTER OF**
3 **ALLOWING INDUSTRIAL CONSUMERS TO OPT-OUT OF EE/DSM**
4 **PROGRAMS?**

5 **A.** In the recent settlement between Duke, the Office of Regulatory Staff (ORS),
6 SCEUC, and the Southern Environmental Law Center, Duke Energy agreed to
7 allow industrial consumers to opt-out of the utility's proposed energy
8 efficiency/demand side management program, which is called "Save-A-Watt"
9 (SAW), if the industrial has already implemented its own energy efficiency
10 programs. The settlement in the case contains the following opt-out language:

11
12 The Parties agree that all industrial customers (as defined in the
13 subparagraph below) of the Company may elect to opt out of the
14 energy efficiency component of Rider EE on an annual basis
15 during a two month enrollment period to commence January 1 of
16 each year and conclude on March 1 of each year. For purposes of
17 the initial opt-out period for energy efficiency programs, the opt
18 out period shall commence upon issuance of the Commission's
19 order in this docket and conclude sixty days thereafter. Further, the
20 Parties agree that all industrial customers may opt out of the
21 demand-side management component of Rider EE upon a one-time
22 election for the four year energy efficiency plan made within sixty
23 days of the Commission's order in this docket. The rider charge
24 applicable to energy efficiency programs and/or demand-side
25 management programs will not be applied for customers qualified
26 to opt out of the programs. To qualify to opt out, the customer
27 must:

- 28
29 a) Certify or attest to the Company that it has performed or
30 had performed for it an energy audit or analysis within the
31 three year period preceding the opt out request and has
32 implemented or has plans for implementing the cost-
33 effective energy efficiency measures recommended in that
34 audit or analysis; and
35 b) Be served under an electric service agreement where the
36 establishment is classified as a "manufacturing industry" by
37 the Standard Industrial Classification Manual published by

1 the United States Government, and where more than 50%
2 of the electric energy consumption of such establishment is
3 used for its manufacturing processes.
4

5
6 **Q. ARE YOU AWARE OF OTHER STATES WHERE MANUFACTURERS**
7 **CAN OPT-OUT OF EE/DSM PROGRAMS WITHOUT ALL THE**
8 **REQUIREMENTS AS PROPOSED IN THIS CASE BY SCE&G?**

9 **A.** Yes. In 2007 North Carolina passed legislation mandating a renewable energy
10 portfolio standard (REPS) that also gave utilities the opportunity to implement
11 EE/DSM programs. However, the North Carolina legislation specifically gave
12 manufacturers the right to opt-out of utility sponsored EE/DSM activities if the
13 manufacturer has already implemented energy efficiency programs or will do so
14 in the future.

15
16 Unlike what SCE&G is proposing in this case, the North Carolina legislation does
17 not create a conflict of interest for the utility by allowing it to be the sole
18 determinant of whether or not the manufacturer can opt-out of the utility profit-
19 driven EE/DSM activities.

**II. IMPACT OF PROPOSED RATE RIDER ON SCE&G
INDUSTRIAL SALES**

**Q. HOW HAVE SCE&G INDUSTRIAL SALES CHANGED IN THE LAST
YEAR?**

A. According to SCANA's third quarter earnings, sales to industrial customers dropped 15.8% for nine months ending Sept. 30, 2009 versus the nine-month period ending Sept. 30, 2008. Such a drop in industrial sales is not surprising given the poor economy in 2009. However, SCE&G should take notice that adding more costs to industrial consumers at the present time could cause irreparable harm to the utility's long-term earnings growth, as well as the long-term unemployment rate in South Carolina.

**Q. PLEASE EXPLAIN THE ROLE OF MANUFACTURING IN THE SOUTH
CAROLINA ECONOMY.**

A. Although manufacturing activity has declined in recent years, manufacturing is still one of the primary economic engines for South Carolina. In fact, according to the Dec. 9, 2009 edition of the *Columbia Regional Business Report*, manufacturing contributes the following to the South Carolina economy:

- manufacturing employs 15% of all South Carolina workers;
- manufacturing pays an average wage in South Carolina of \$46,192, which is 27% above the state wide average wage rate;
- manufacturers pay 13% of all property taxes in the state; and
- total direct and indirect impacts of manufacturing amount to \$141 billion on an annual basis.

1 Within the article, Mr. Ropbert M. Hitt of the South Carolina Manufacturers
2 Alliance makes the following statement:

3 Manufacturing still matters in South Carolina. It will remain well
4 into the future, but only if we recognize its value and promise and
5 are willing to provide the competitive environment and tools
6 necessary for manufacturers to flourish in today's fast-paced and
7 ever-changing world.

8
9 With all that manufacturing has to offer and its critical role in our
10 economy, it is imperative that state leaders, policymakers, media,
11 and the public understand its benefit and the impact of our
12 collective decision-making and perceptions on its future here.

13
14 A complete copy of this article from the *Columbia Regional Business*
15 *Report* can be seen in Appendix C.

16
17 Imposing a rate rider is the polar opposite of the competitive environment and
18 needed tools as noted by Mr. Hitt in the quote above. Manufacturers are a vital
19 part of the South Carolina economy. SCE&G should not harm South Carolina and
20 its citizens by forcing manufacturers to pay a rate rider for projects that
21 manufacturers, themselves, have already invested in for many years. If for no
22 other reason but for the sake of its own earnings, SCE&G would be wise to follow
23 the advice of Mr. Hitt and create a competitive environment for manufacturers by
24 dropping its request to create an energy efficiency/demand side management rate
25 rider that, in reality, will do nothing but provide additional temporary earnings for
26 the utility at the expense of manufacturers, manufacturing employees, and the
27 economy of South Carolina.

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III. RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IN THIS PROCEEDING.

A. I recommend that the Commission allow manufacturers to opt-out of the SCE&G EE/DSM projects in the same manner as ordered in the Progress Energy docket and as agreed to by Duke Energy in its recent rate case settlement. Manufacturers should be allowed to opt-out of energy efficiency and demand side management programs by submitting a letter to SCE&G stating that it has implemented or plans to implement cost-effective EE/DSM measures.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX A

Kevin W. O'Donnell, CFA
President
Nova Energy Consultants, Inc.
1350 SE Maynard Rd.
Suite 101
Cary, NC 27511

Education

I received a B.S. degree in Civil Engineering - Construction Option from North Carolina State University in May of 1982 and a Masters of Business Administration in Finance from Florida State University in August of 1984.

Professional Certification

I am a Chartered Financial Analyst (CFA) and a member of the Association of Investment Management and Research.

Work Experience

In September of 1984, I joined the Public Staff of the North Carolina Utilities Commission as a Public Utilities Engineer in the Natural Gas Division. In December of 1984, I transferred to the Public Staff's Economic Research Division and held the position of Public Utility Financial Analyst. In September of 1991, I joined Booth & Associates, Inc., a Raleigh, North Carolina, based electrical engineering firm, as a Senior Financial Analyst. I stayed in this position until June 1994, when I accepted employment as the Director of Retail Rates for the North Carolina Electric Membership Corporation. In January 1995, I formed Nova Utility Services, Inc., an energy consulting firm. In May of 1999, I changed the name of Nova Utility Services, Inc. to Nova Energy Consultants, Inc.

Along with my work with Nova Energy Consultants, Inc., I am also a senior financial analyst for MAKROD Investment Associates of Verona, NJ. MAKROD is a money management firm that specializes in portfolio management services for high wealth individuals and institutional investors.

Testimonies

North Carolina

I have testified before the North Carolina Utilities Commission in the following general rate case proceedings: Public Service Company of North Carolina, Inc. (Docket No. G-5, Sub 200, Sub 207, Sub 246, Sub 327, and Sub 386); Piedmont Natural Gas Company (Docket No. G-9, Sub 251 and Sub 278); General Telephone of the South (Docket No. P-19, Sub 207); North Carolina Power (Docket No. E-22, Sub 314); Piedmont Natural Gas Company (Docket No. E-7, Sub 487); Pennsylvania & Southern Gas Company (Docket No. G-3, Sub 186); and in several water company rate increase proceedings. I also submitted pre-filed testimony, and/or assisted in the settlement process, in Docket Nos. G-9, Sub 378, Sub 382, Sub 428 and Sub 461, which were general rate cases involving Piedmont Natural Gas Company; in Docket No. G-21, Sub 334, North Carolina Natural Gas' most recent general rate case; in Docket No. G-5, Sub 356, Public Service of North Carolina's 1995 general rate case; and in Docket No. G-39, Sub 0, Cardinal Extension Company's rate case. Furthermore, I testified in the 1995 fuel adjustment proceeding for Carolina Power & Light Company (Docket No. E-2, Sub 680) and submitted pre-filed testimony in Docket No. E-7, Sub 559, which was Duke Power's 1995 fuel adjustment proceeding. I also submitted pre-filed testimony and testified in Duke's 2001 fuel adjustment proceeding, which was Docket No. E-7, Sub 685.

Furthermore, I testified in Docket No. G-21, Sub 306 and 307, in which North Carolina Natural Gas Corporation petitioned the Commission to establish a natural gas expansion fund. I also submitted testimony in the Commission's 1998 study of natural gas transportation rates that was part of Docket No. G-5, Sub 386, which was the 1998

general rate case of Public Service Company of North Carolina. In September of 1999, I testified in Docket Nos. G-5, Sub 400 and G-43, which was the merger case of Public Service Company of North Carolina and SCANA Corp. I also submitted testimony and stood cross-examination in the holding company application of NUI Corporation, a utility holding company located in New Jersey, which was NCUC Docket No. G-3, Sub 224, as well as NUI's merger application with Virginia Gas Company, which was Docket No. G-3, Sub 232. I also submitted pre-filed testimony and stood cross-examination in Docket No. G-3, Sub 235, which involved a tariff change request by NUI Corporation. I testified in another holding company application in Docket No. E-2, Sub 753; G-21, Sub 387; and P-708, Sub 5 which was the holding company application of Carolina Power & Light. In June of 2001, I submitted testimony and stood cross-examination in Docket No. E-2, Sub 778, which was CP&L's application to transfer Certificates of Public Convenience and Necessity (CPCN) from two of the Company's generating units to its non-regulated sister company, Progress Energy Ventures. In November of 2001, I testified in Duke Energy's restructuring application, which was Docket No. E-7, Sub 694. In January 2002, I presented testimony in the merger application of Duke Energy Corp. and Westcoast Energy. In April of 2003, I submitted testimony in Dockets Nos. G-9, Sub 470, Sub 430, and E-2, Sub 825, which was the merger application of Piedmont Natural Gas and North Carolina Natural Gas. In May of 2003, I submitted testimony in the general rate case of Cardinal Pipeline Company, which was Docket No. G-39, Sub 4. In July 2003, I filed testimony in Docket No. E-2, Sub 833, which was CP&L's 2003 fuel case proceeding. I prepared pre-filed testimony and stood cross-examination in the merger application of Piedmont Natural Gas and Eastern North Carolina Natural Gas. In July of 2005, I prepared pre-filed testimony in Carolina Power & Light's fuel case in North Carolina. In August of 2005 I assisted in the settlement of Piedmont's 2005 general rate case. In June, 2006, I submitted rebuttal testimony in Docket No. E-100, Sub 103, which was the investigation of integrated resource planning (IRP) in North Carolina. Also in the month of June, 2006, I submitted testimony in Docket No. G-9, Sub 519, which was the application of Piedmont Natural Gas to change its tariffs and service regulations. In

August, 2006, I assisted in the settlement of the rate case of Public Service of North Carolina in Docket No. G-5, Sub 481. In December of 2006, I prepared direct testimony and stood cross-examination in Docket No. E-7, Sub 751, which was application of Duke Power to share net revenues from certain wholesale power transactions. In January, 2007, I submitted testimony in the application of Duke Energy in Docket No. E-7, Sub 790, which was in regard to the construction of two 800 MW coal fired generation units in Rutherford County, North Carolina. In June, 2008, I filed testimony in Duke Energy's Save-A-Watt energy efficiency filing. In August, 2009, I filed testimony in support of the application of Western Carolina University for an increase in rates and charges. In October, 2009, I assisted in the settlement of Duke Energy's general rate case proceeding.

South Carolina

In August of 2002, I submitted pre-filed testimony and stood cross-examination before the South Carolina Public Service Commission in Docket No. 2002-63-G, which was Piedmont's 2002 general rate case. In October of 2004, I submitted pre-filed testimony and stood cross-examination in the general rate case of South Carolina Electric & Gas. In March 2005, I prepared pre-filed testimony and assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In April of 2005, I prepared pre-filed testimony and assisted in the settlement of Carolina Power & Light's fuel case in South Carolina. In March 2006, I assisted in the settlement involving the fuel application proceeding of South Carolina Electric & Gas. In November of 2007 I assisted in the settlement of the 2007 South Carolina Electric & Gas general rate case proceeding. In October, 2008, I submitted testimony in the 2008 South Carolina Electric & Gas base load review act proceeding. In November, 2009, I submitted testimony in Duke Energy's 2009 general rate case proceeding.

United States Congress

In May of 1996, I testified before the U.S. House of Representatives, Committee on Commerce and Subcommittee on Energy and Power concerning competition within the electric utility industry.

I have also worked with North Carolina and South Carolina municipalities in presenting comments to the Federal Energy Regulatory Commission regarding the opening of the wholesale power markets in the Carolinas.

Publications

I have also published the following articles: Municipal Aggregation: The Future is Today, *Public Utilities Fortnightly*, October 1, 1995; Small Town, Big Price Cuts, *Energy Buyers Guide*, January 1, 1997; and Worth the Wait, But Still at Risk, *Public Utilities Fortnightly*, May 1, 2000. All of these articles dealt with my firm's experience in working with small towns that purchase their power supplies in the open wholesale power markets.

APPENDIX B

SC CUSTOMER OPT OUT TEMPLATE

Progress Energy Carolinas, Inc.
CSC - CIGS Team
PO Box 1771
Raleigh, NC 27602

Dear Progress Energy:

The purpose of this letter is to notify Progress Energy Carolinas (PEC) of our decision to not participate in the annual cost recovery rider for PEC's Demand-Side Management (DSM) and Energy Efficiency (EE) Programs. At our own expense, we have already implemented or will be implementing alternative DSM/EE measures, in accordance with stated, quantifiable goals for demand-side management and energy efficiency.

Therefore, we are requesting that the following PEC accounts (or list attached) be excluded from charges associated with PEC's DSM/EE programs:

PEC Account Number(s):

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

We understand PEC will be informing the SC Public Service Commission of our decision to opt out these accounts.

Yours very truly,

Company Name: _____

Signed _____

Title: _____

Date: _____

APPENDIX C

1

COLUMBIA REGIONAL BUSINESS REPORT

Monday, January 04, 2010

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Study: Manufacturing remains a mainstay of S.C. economy

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Staff Report
Published Dec. 9, 2009

Despite the pressures of the recession and despite its status as an economic sector in transition, manufacturing continues to constitute the largest industry cluster in South Carolina, according to a new economic impact study by Miley Gallo and Associates LLC.



The data showed almost 5,200 manufacturing establishments in the state in 2008. That is 4.6% of all establishments, though the manufacturers paid more than 20% of all wages paid in South Carolina, and constituted more than 15% of all jobs.

"The benefits and economic impact of manufacturing in South Carolina are great — historically and today," Robert M. Hitt, chairman of the S.C. Manufacturers Alliance, wrote in the introduction to the new study, which his group commissioned. "Contrary to what we too often hear and see in the public dialogue, manufacturing still matters, and the growth potential for South Carolina's manufacturing sector is significant."

Some highlights of the study include:

Total direct and indirect impacts of manufacturing were \$141 billion per year. Direct impact was more than \$95

billion, and indirect impact was \$46 billion.

- Manufacturers pay 13% of all property taxes statewide. In some counties, the manufacturers' share is more than 50%. Calhoun County, for example, reaps 62% of property taxes from manufacturers.

Employment trends show a declining but important manufacturing base in several key areas of the state:

County	Total Employment	Manufacturing Employment	% of Total County Employment	County Average Wage	Per Capita Income
Greenville	224,240	28,619	12.8%	\$38,272	\$35,076
Spartanburg	111,644	23,788	21.3%	\$38,116	\$28,971
Anderson	55,988	11,186	20.0%	\$31,408	\$29,084
Charleston	203,699	10,689	5.2%	\$37,808	\$38,702
Richland	206,452	10,434	5.1%	\$39,156	\$34,434
Lexington	93,431	10,314	11.0%	\$32,708	\$34,744
York	73,928	8,649	11.7%	\$35,152	\$32,627
Sumter	34,690	6,229	18.0%	\$30,212	\$27,576
Greenwood	28,315	6,154	21.7%	\$34,632	\$27,297
Florence	59,853	6,133	10.3%	\$34,736	\$31,802

Manufacturing, however, has not grown at a pace with the rest of the economy, the data show. Although the gross state product for all industries increased 52% during the past decade, manufacturing grew by 6%.

For those still employed in manufacturing, wages remain among the highest in the state. The average manufacturing wage of \$46,192 is more than 27% above the statewide average, the report states.

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Columbia Regional Business Report | Columbia, SC

Direct labor income from manufacturing amounts to almost \$16.5 billion.

Adding new manufacturing will continue to be an important part of the state's economic development strategy, the study indicates.

The Miley Gelo study suggests that the addition of another auto parts maker with 200 employees would have a direct economic output of \$57.3 million and additional indirect economic impact of \$28.8 million.

"Manufacturing provides good jobs for our state's residents with wages that are substantially higher than nonmanufacturing jobs," said Hitt, who is also chief spokesman for BMW Manufacturing near Greer. "Manufacturing has a greater multiplier effect on the rest of our economy than any other industry sector. Also, manufacturing drives private-sector development and innovation — leading to advanced technologies and products that improve our quality of life.

"Manufacturing still matters in South Carolina," Hitt continued. "It will remain well into the future, but only if we recognize its value and promise and are willing to provide the competitive environment and tools necessary for manufacturers to flourish in today's fast-paced and ever-changing world.

"With all that manufacturing has to offer and its critical role in our economy, it is imperative that state leaders, policymakers, media, and the public understand its benefit and the impact of our collective decision-making and perceptions on its future here," Hitt said.

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Secret War On The Dollar
Read the Shocking Bulletin That Washington
Does Not Want You To See



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